

The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

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Tax Time . . .

With 1983's income tax filing deadline now only hours away, millions of taxpaying Americans are undoubtedly doing what they always do at this time of year—resolving to do things differently the next time around. What this means, of course, is that efforts to keep a larger chunk of pretax earnings will be intensified, as will those to generate more tax-free income. For some, a partial solution may be the purchase of long maturity, municipal bonds since in recent years the rise in municipal bond interest rates has outpaced the rise in taxable bond yields—widening the pool of individuals who could benefit from the purchase of tax-free bonds.

For others, however, prevailing nontaxable yields may be somewhat disappointing. In recent months, the backup in taxable bond yields has been more pronounced than in the municipal market. This trend will probably not change much in coming months, because dramatically improving state and local finances will no doubt keep a lid on borrowing needs, leaving purchasers to scramble for the available bond supply.

The improvements in state and local finances have been nothing less than dramatic. This is partially because of the fact that these entities, in an attempt to cope with the challenges of recession, reduced Federal grants and escalating costs, sharply increased taxes and scaled back significantly the provision of essential and nonessential services. Indeed, because of actual and looming budget deficits during the 1981-82 recession, not to mention the fact that every state except Vermont has laws barring budget deficits, 38 states raised taxes in 1983, of which 16 hiked income taxes. What is more, with receipts growth sluggish at best, state and local government borrowings soared in 1982-83, with net new borrowings rising above \$70 billion in both 1982 and 1983—sending municipal bond interest rates to lofty heights as well.

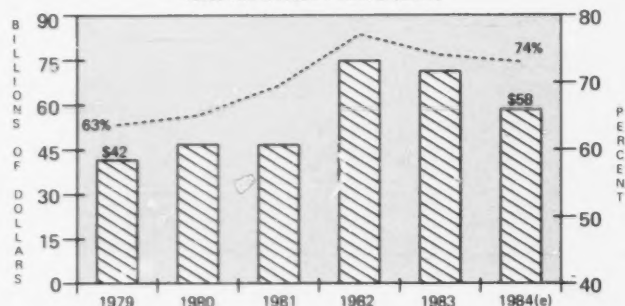
. . . Heightens Interest . . .

With such states as California and Minnesota experiencing financial difficulties, the combined budget operating surplus often enjoyed by state and local governments (which excludes the activities of their pension funds) vanished in 1982. It slipped into an

overall deficit of almost \$2 billion—the first state and local red ink total since 1975. Only four years earlier, in fact, the combined operating surplus had hit \$10 billion.

But if the slide into deficit was quick, the return to at least some semblance of financial health has been even quicker. With record numbers of people now back at work and corporate profits surging, municipal receipts have begun to balloon. And, with the tax take rising and outlays curbed, the deficit of 1982 was replaced by a record annualized surplus of \$20 billion in the fourth quarter of 1983. What is more, if today's receipts and spending trends hold up throughout the entire year, the state and local black ink total could hit \$26 billion in 1984. This sum would be equivalent to more than 5½ percent of anticipated total spending—a new record high.

NEW MUNICIPAL BOND ISSUANCE (BAR) VS.
BOND BUYER INDEX AS A % OF
NEW AA UTILITY RATE (DOT)



Not surprisingly, pressures to trim taxes have replaced the need to raise them in states as diverse as New York and Nebraska. So, too, despite a stepped-up pace of public construction activity, the volume of state and local government borrowings has begun to taper off. With restrictions likely to be placed on the use of industrial development bonds, the amount of advance refundings expected to slow, and the treasuries of state and local governments replenished, it appears a good bet that the volume of new state and local bond offerings will fall far short of the record borrowing pace of 1982-83. In the first quarter of 1984, for example, total new bond issues ran at a \$58 billion annual rate—well below the \$70 billion plus level of 1983.



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... In State And Local Securities

If this was not sufficient to enhance the strength of the municipal bond market, the downturn in new financing needs comes at a time when investor interest in tax exempts remains extremely brisk. For despite the fact that such traditional institutional purchasers of municipal bonds as commercial banks and property insurance companies are expected to be small net demanders of new offerings in 1984, any emerging slack will be offset by a robust level of individual and municipal bond fund purchases. Indeed, while cash flow difficulties continue to plague many property insurance companies due to rising claims and slow income growth thereby limiting their ability

to take down a significant amount of new municipal offerings, and the commercial banks remain relatively unenthusiastic purchasers of new municipals, this does not apply to the individual—and the reasons are not difficult to see.

Although in recent months the rise in taxable bond yields (about 125 basis points) has tended to outdistance the upturn in tax-exempt yields (about 50 basis points), the pretax ratio of nontaxable to taxable yields, currently hovering at around 0.75 percent, is still well above the approximately 0.60 percent ratio prevailing during much of the late 1970s and early 1980s (see chart on page 1). Thus, in the earlier period, when tax exempts were

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 4/11/84	% Change Since	
		Week Ago	Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies			
Owned Outright & RPs	159.669	+ .669	+ 14.181
Loans to Depository Inst.	1.513	+ .399	+ .931
Float	1.336	+ .629	— .907
Total Reserve Bank Credit	171.499	+ 1.712	+ 13.942
Treasury Deposits with			
Federal Reserve Banks	3.098	— .656	+ .089
Currency in Circulation	170.362	+ 1.336	+ 13.105
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	115.738	+ .810	+ 4.624
Member Bank Reserves:			
Total Reserves Held	36.125	+ .732	+ 2.583
Excess (Deficiency)	.430	— .292	— .133
Net Borrowed Reserves	.925	+ .642	+ 1.331
Monetary Aggregates †		% Change Since	
		Three Months Ago*	Year Ago
M1 (4/2/84)	533.2	+ 8.1	+ 7.7
M2 (March '84)	2,228.4	+ 5.9	+ 7.8
M3 (March '84)	2,762.4	+ 8.2	+ 9.1
Domestic Nonfinancial Debt (4th Q'83)	5,219.0	+ 10.6	+ 10.8

†Seasonally adjusted.

* Seasonally adjusted annual rate.

New York Money Market

	3 Months	6 Months	1 Year
Offering Rates 4/13/84			
‡ U.S. Treasury Bills	9.65%	9.70%	9.85%
* Federal Agencies	9.95	10.60	10.95
* Project Notes—Taxfree (46% Taxable Equivalent)	9.81	10.46	11.20
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	10.28	10.57	11.05
‡ Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	9.90%	May	10.10%
15- 29 days	10.00	Jun.	10.07
30- 59 days	10.05	Jul.	10.07
60- 89 days	10.10	Aug.	10.13
90-179 days	10.00	Sep.	10.17
180-239 days	9.80	Oct.	10.14
240-270 days	9.50		
‡ Industrial Paper—Prime			
30- 89 days	10.20%	† Federal Funds	
90-120 days	10.20	Effective Rate	10.25%
‡ Discount basis.	* Subject to availability.	† Estimated.	

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period	Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'83 \$ 3,436	\$ 3,362	\$ 3,110
Gross National Product (1972 Dollars)*	4th Q'83 \$ 1,573	\$ 1,553	\$ 1,481
Percent Change, Annual Rate	4th Q'83 5.0	7.6	— 1.3
Change in Consumer Prices (new series)*	Feb '84 4.8%	7.2%	— 1.2%
Change in Producer Prices*	Mar '84n 6.0%	4.8%	— 1.2%
Civilian Employment (Thousands of Persons) †	Mar '84 104,140	103,892	99,316
Unemployment as % of Civilian Labor Force †	Mar '84 7.8%	7.8%	10.3%
Personal Income*	Feb '84 \$ 2,923	\$ 2,902	\$ 2,651
Leading Indicators Composite Index (1967=100) †	Feb '84 165.9	164.8	147.4
Industrial Production Index (1967=100) †	Mar '84n 160.7	160.0r	140.0
Net Change in Consumer Installment Credit †	Jan '84 \$ 4.34	\$ 6.61	\$ 2.77
U.S. Merchandise Trade Balance †	Feb '84 -\$ 10.09	-\$ 9.47	-\$ 3.37
Plant and Equipment Expenditures*	2nd Q'84 \$335.40(a)	\$332.66(a)	\$293.46
Private Housing Starts (Thousands of Units)*	Feb '84 2,197	1,976	1,706
New Construction Expenditures*	Feb '84 \$ 295.0	\$ 276.0	\$ 243.0
Total Business Inventories †	Feb '84n \$ 527.0	\$ 517.8r	\$ 507.7
Total Business Sales †	Feb '84n \$ 399.5	\$ 400.9r	\$ 341.5

*Seasonally adjusted annual rate.

† Seasonally adjusted.

n-Newly reported figure.

r-Revised.

a-Anticipated.

yielding about 5½ to 6½ percent and taxable bond yields were closing in on ten percent, it made sense only for those high-income households paying marginal Federal income tax rates of 40 percent or better to purchase municipal bonds.

However, at today's relative bond yields, even households paying marginal tax rates as low as 25 percent would enjoy a yield advantage when purchasing tax-exempt bonds. What is more, just about one year ago, when the ratio of tax exempt to taxable yields stood at almost 85 percent, taxpayers with adjusted gross incomes as low as \$9,500 would have found the purchase of municipal bonds preferable to taxables—at least from an

after-tax yield standpoint.

One outcome of all this has been the growing role of the individual investor, and the tax-exempt bond funds which service them, in the municipals market. Purchases by individual investors of municipal securities have recently accounted for about 40 percent of all net new offerings, up from about 15 percent in the late 1970s. And, when this is added to the purchases of the tax-exempt bond funds (whose total assets have quintupled in the last two years to more than \$36 billion), the lion's share of municipal offerings is accounted for—and this should help to keep the lid on state and local borrowing costs for awhile. **M**

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since	
		Week Ago	Year Ago
Time Deposits of \$100,000 or more			
Weekly Reporting Banks			
Nationwide (3/28/84)	143,268	+ 1,138	-14,881
New York City (4/4/84)	29,315	+ 130	- 8,072
Commercial Paper (4/4/84)	199,847	+ 907	+33,833

Bank Loans

(Millions of Dollars)

Weekly Reporting Large Commercial Banks		Commercial and Industrial Loans		
		Latest Week	Change Since Week Ago	Year Ago
Nationwide (3/28/84)		231,224	+ 154	NA*
New York City (4/4/84)		61,308	+ 694	NA*

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (3/28/84)	587,260	+ 718	NA*
New York City (4/4/84)	134,795	+ 2,864	NA*

* Year ago data not available due to definitional changes.

Financial Markets

U.S. Governments, Closing Yields:

	Friday 4/13/84	Change Since	
		Week Ago	Year Ago
90-Day Billst	10.00%	+ .34	+ 1.63
180-Day Billst	10.34	+ .56	+ 1.71
Longest Bills †	10.62	+ .81	+ 1.75
Recent Issues:			
11½s 3/31/86	11.41	- .27	
12s 3/31/88	11.95	- .27	
11¾s 11/15/93	12.34	- .28	
12s 8/15/13	12.38	- .26	

Municipals:

Bond Buyer- 20 Bond Index* (4/12/84)	9.97%	- .07	+ .93
Blue List Total (\$ Million)	\$1,600	+ \$ 8	+ \$489
30-Day Visible Supply (\$ Million)	\$2,438	+ \$173	- \$898
Total	\$4,038	+ \$181	- \$409

Corporates:

Moody's Aa Composite (4/12/84)	13.32%	- .14	+ 1.33
30-Day Visible Supply (\$ Million)	\$ 785	- \$840	+ \$ 58

Stocks:

Dow-Jones Averages:			
Industrials	1,150.13	+ 17.91	- 21.12
Transportation	497.33	+ 13.17	- 32.61
Utilities	125.34	- .09	- .72
65 Stocks	449.40	+ 7.24	- 12.61
Standard and Poor's 500 Stocks	157.31	+ 1.83	- 1.44
N.Y.S.E. Composite Index	90.50	+ 1.02	- .68
N.Y.S.E. Avg. Daily Vol. for Week (000's)	88,608	- 2,482	+ 230

* 46% Taxable equivalent 18.46%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)		Friday 4/13/84	Week Ago
Overnight		10.00%	10.44%
1 month		10.44	10.63
3 month		10.69	10.88
6 month		11.00	11.13
1 year		11.38	11.63

EURODOLLAR BONDS

Average Yield		
Medium Term (5 to 7 yrs.)	12.25%	12.35%
Long Term (7 to 15 yrs.)	12.50	12.60

FOREIGN EXCHANGE SPOT RATES

New York Opening (4/13/84)	U.S. \$ Equivalent	Currency Per U.S. \$
Belgium	.01867	53.56
Canada	.7827	1.2776
Denmark	.1039	9.6265
France	.1241	8.0575
Germany	.3821	2.6170
Italy	.0006161	1623.00
Japan	.004461	224.15
Mexico	.005571	179.50
Netherlands	.3386	2.9530
Switzerland	.4604	2.1720
U.K.	1.4320	.6983

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